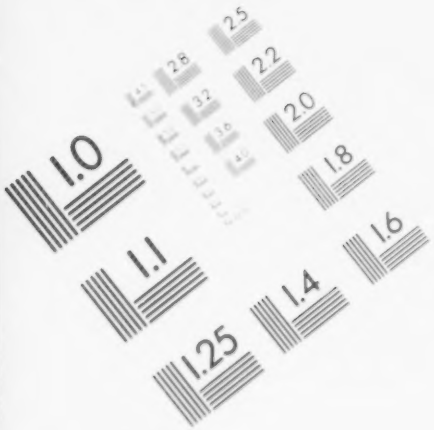

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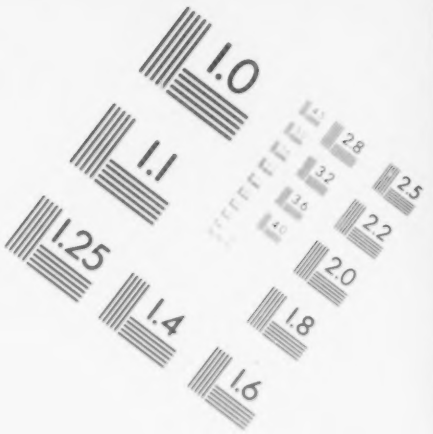

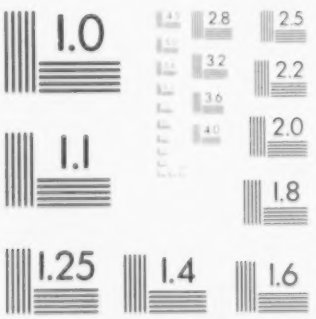

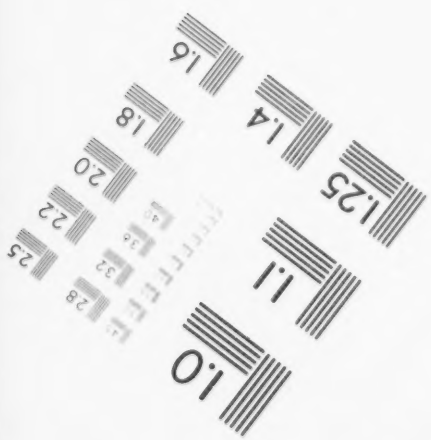

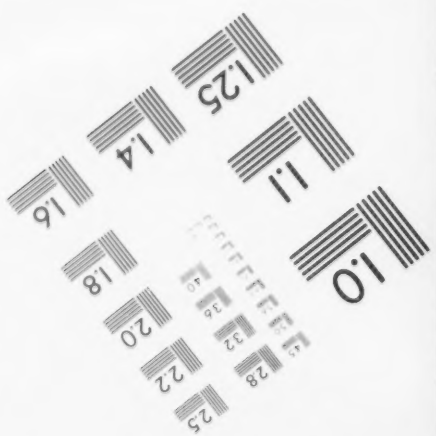

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ABSTRACT

This report provides an overview of educational financing in Minnesota. It describes how support for elementary and secondary education in the state comes through a combination of state-collected taxes and locally controlled property taxes. Revenue to the school districts is received in three major categories: state education-finance appropriations; state-paid property-tax credits; and property-tax levies. The document discusses how these three sources of money target general-education programs and categorical programs. Some of the various types of revenue for general-education programs include basic skills revenue, secondary-sparsity revenue, elementary-sparsity revenue, operating-capital revenue, transportation-sparsity revenue, graduation-standards-implementation revenue, training and experience revenue, transition revenue, supplemental revenue, reserved revenue and reductions, referendum revenue, and the equalizing factor. Some of the various revenue targets for categorical programs include special education, secondary vocations education, capital expenditure related programs, debt-service revenue, abatement revenue, crime-related costs, gifted and talented programs, historical-building revenue, homeless-student revenue, and minority-teacher incentives. The report also highlights property tax relief aids, such as the education-homestead credit, and details other aspects of finances, including education-finance appropriations and property-tax-relief aid payments to school districts. (RJM)

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Financing Education in Minnesota 1998-1999

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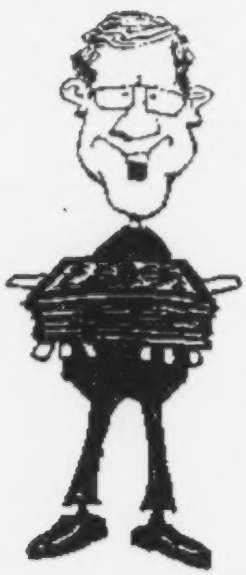
Education Revenue

Total Dollars = Local Levy + State Aid

TOTAL DOLLARS
Pupil Units
x
Formula Allowance



LOCAL LEVY
Tax Capacity Rate
x
Tax Capacity

STATE AID
Total Dollars
minus
Local Levy

Financing Education in Minnesota

1998-1999

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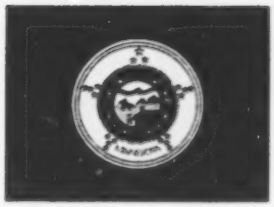
Please Note: All statutory references will have two references (due to a complete recodification (or renumbering) of the State's education statutes. In this publication, both the old and the new statutory reference will be shown, in the format [old / new]. For example, the general education statutes will be referenced as [124A / 124D]. The "new" statutory references are current as of 8/1/98. Due to broad authority the Revisor of Statutes has with regard to renumbering these statutes, the "new" statutory references are subject to change.

Introduction



"The stability of a republican form of government depending mainly upon the intelligence of the people, it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state."

- Minnesota Constitution, Article XIII, Section 1

The financing of elementary and secondary education in Minnesota is through a combination of state-collected taxes (primarily income and sales) and locally collected property taxes. Revenue to school districts is received in three major categories, all of which are described in greater detail in this booklet. In summary, the three categories are:

1. State Education Finance Appropriations

   A. General Education Aid - The largest share of the education finance appropriation, general education aid, is intended to provide the basic financial support for the education program as well as equalize differences in property wealth between districts.

   B. Categorical Aids - Categorical revenue formulas are generally used to meet costs that vary significantly between districts (i.e., special education) or promote certain types of programs (i.e., secondary vocational aid).

2. State Paid Property Tax Credits

   Property tax credits reduce the amount of property taxes paid. To make up for this reduction, the state pays the difference between what was levied in property taxes and what is actually received in property taxes to school districts and other taxing districts. Beginning in 1998-99, a new education homestead credit will be effective, reducing overall school levies.

3. Property Tax Levies

   Property tax levies are usually determined as part of a formula that includes state aid. The largest share of the levy is part of the general education formula. In addition, the property tax levy is the major source of revenue for school building programs.

Minnesota Education Finance Terms

General Education Program - The general education program is the method by which school districts receive the majority of their financial support.

A. **Basic Revenue and General Education Levy**: The basic general education formula establishes the minimum level of funding for school districts. General education aid is determined by subtracting the amount raised by the general education levy from the formula allowance times pupil units. Both the basic formula allowance and the general education levy are set each year in legislation.

School Year	Formula Allowance	Tax Rate
1989-90	2,838 (a)	29.3% (b)
1990-91	2,953	26.3%
1991-92	3,050	26.4%
1992-93	3,050	27.9%
1993-94	3,050	30.7%
1994-95	3,150	34.9%
1995-96	3,205 (a)	34.2%
1996-97	3,505 (c)	40.8% (c)
1997-98	3,581	37.4%
1998-99	3,530 (d)	36.9%

(a) The formula allowance for 1989-90 was originally set $38 lower than this number. The formula for 1995-96 was originally set $55 lower. The amount added to the formula in each of those years is all state aid and is not used to determine the equalizing factor.

(b) For 1989-90, the tax rate is applied to gross tax capacity. For 1990-91 and after, it is applied to adjusted net tax capacity (ANTC).

(c) The formula and tax rate for 1996-97 reflect the "roll-in" of a major portion of transportation funding and training experience funding into the general education formula. The formula increase of $300 ($3,205 to $3,505) reflects that roll-in. The tax rate reflects the roll-in and also includes the property tax portion of the operating capital funding.

(d) The formula allowance for 1998-99 reflects the "roll-out" of training and experience funding from the general education formula. The decrease of $51 ($3,581 to $3,530) is the net result of the $130 reduction for the roll-out of training and experience and a $79 increase in the formula.

The general education formula is an "equalized" formula - the state pays in aid the difference between what is raised by the local levy and the formula allowance. The portion that is local levy can be determined by comparing a district's adjusted net tax capacity per pupil unit to the equalizing factor. The equalizing factor is determined by dividing the basic formula allowance by the tax capacity rate. For 1998-99, the equalizing factor calculation is: $3,530/.369 = $9,566.

The basic revenue allowance for each district for the 1998-99 school year is $3,530 per pupil unit. Of this amount, the revenue resulting from .06 times K-6 pupil units must be reserved to reduce kindergarten and elementary classes to one teacher per 17 pupils. State aid of $3.0 billion and property tax levy of $1.3 billion provide the basic revenue for all districts. The total of all state aid for the general education component is $3.9 billion, and the total levy amount is $2.0 billion.

B. **Basic Skills Revenue**: Basic skills revenue begins in the 1998-99 school year, and includes the former Compensatory, Limited English Proficiency (LEP), LEP concentration, and Assurance of Mastery revenues. While these revenues are combined into a single category, the funding available for Basic Skills revenue is based on existing formulas for the individual components. The components are:

Compensatory revenue. School sites where pupils eligible for free and reduced priced lunches attend receive Compensatory revenue based on the number of eligible pupils at the site. Compensatory revenue increases as the percent of free and reduced price pupils at a particular school site increases (however, the percent is capped).

Limited English Proficiency. Districts receive LEP revenue based on the cost of providing services to students with limited proficiency in English. In addition, a per pupil amount is provided to districts with concentrations of LEP students. The per pupil funding increases as the concentration increases (though the concentration percentage is capped).

Assurance of Mastery Revenue. Districts that identify direct instructional services to assure that K-8 pupils master learner outcomes in communications and math are eligible for state aid up to $22.50 per K-8 pupil unit. The state aid must be matched by other district revenue.

All school districts will receive some portion of approximately $225 million in basic skills revenue in the 1998-99 school year. (The $225 million is based on approximately $185 million in Compensatory revenue, $25 million in the LEP revenues, and $15 million in Assurance of Mastery revenue.).

C. **Operating Sparsity Revenue**: Sparsity revenue provides additional funding for small and isolated schools. This revenue acknowledges the higher cost of necessarily small education programs. There are two parts to the sparsity formula, one for elementary schools and one for secondary schools. A district is eligible for elementary sparsity revenue for elementary schools that average 20 or fewer pupils per grade and are 19 miles or more from the nearest elementary schools. A district is eligible for secondary sparsity revenue for secondary schools with less than 400 pupils that serve a large geographic area and are a substantial distance from another secondary school. A total of $10 million of sparsity revenue is allocated to about 69 districts in 1998-99.

D. **Transition Revenue**: Transition revenue is intended to minimize the negative impact of formula changes on individual school district revenue. There are two components of transition revenue for the 1998-99 school year: transportation transition and compensatory transition. In the 1996-97 school year the basic formula increased by $170 per pupil unit, representing the "roll-in" of transportation revenue. Transition revenue assures that districts which, in the 1995-96 school year, had received more than $170 in transportation revenue (excluding the amounts reflected in the transportation sparsity revenue and the targeted needs transportation revenue) will continue to receive those amounts as transition revenue.

In the 1997-98 school year, AFDC revenue was replaced with compensatory revenue, and the basis for calculating the compensatory revenue formula was changed from pupils receiving AFDC to pupils eligible for free and reduced priced lunches. This change resulted in a reduction in revenue for some districts. Compensatory transition revenue is the difference between what a district would have received in the 1997-98 school year under the AFDC formula and its current year compensatory revenue, but the amount can not be negative.

Transition revenue is an aid and levy combination in roughly the same ratio as general education (based on the fixed equalizing factor of $10,000, rather than the variable equalizing factor in the general education formula). 177 school districts receive transition revenue, amounting to $19 million for the 1998-99 school year.

E. **Transportation Sparsity Revenue**: The transportation sparsity allowance provides districts with additional funding based on the number of pupil units per square mile in the school district. About 323 school districts receive $45 million of transportation sparsity revenue.

F. **Operating Capital Revenue**: The operating capital formula has a component representing the former equipment formula ($68 per pupil unit) and a component representing the former facilities formula ($100 times the district's maintenance cost

index). Operating capital revenue ranges from $168 to $216 per pupil unit in 1998-99 and totals $189 million statewide.

G. **Supplemental Revenue**: Supplemental revenue was originally a grandfather revenue for some school districts. Beginning in the 1993-94 school year, supplemental revenue became a fixed amount. Since the 1993-94 school year, the amount of supplemental revenue has been adjusted twice. First, a district's supplemental revenue was reduced by the increase in the formula allowance between the 1993-94 and 1994-95 school years ($100) and by 25 percent of increases in training and experience revenue and compensatory revenue between the 1993-94 and 1994-95 school years. Second, supplemental revenue was increased for the 1997-98 school year by the amount of post-secondary replacement aid a district had received in the 1996-97 school year. Supplemental revenue is an aid and levy combination in roughly the same ratio as general education (based on the fixed equalizing factor of $10,000, rather than the variable equalizing factor in the general education formula). About 31 districts receive approximately $5.4 million in supplemental revenue.

H. **Graduation Standards Implementation Revenue**: Graduation standards implementation revenue for the 1998-99 school year equals $52 per pupil for implementing the state's graduation rule through staff development (at least $20 per pupil), technology, class size reduction and gifted and talented programs (at least $5 per pupil). An additional $14 per pupil will be added if school districts choose to immediately fully implement the graduation rule for the 1998-99 school year for staff development purposes. Districts which choose to phase-in the graduation standards over three school years would not receive the additional $14 per pupil. Finally, districts whose referendum is still reduced by the $100 reduction from 1993 are eligible for a graduation standards implementation equity adjustment of $34 per pupil in additional revenue for the same purposes. All school districts will receive graduation standards implementation revenue in 1998-99, which totals $70.7 million statewide.

I. **Training and Experience Revenue:** Training and experience revenue is based on the experience and education of a school district's faculty. Beginning in the 1998-99 school year, only teachers hired prior to or during 1996-97 are counted for the purposes of computing a school district's training and experience revenue. Training and experience revenue ranges from $0 to $218 per pupil unit per district in 1998-99 and totals $99 million statewide.

J. **Shared-Time Aid**: If a nonpublic school student attends a public school district for a portion of the day, the public school district receives a prorated share of general education aid for that student.

Referendum Revenue - Referendum revenue allows districts to increase the revenue available in their general fund with the approval of the voters in the district. A referendum to increase the general fund revenue may be held only on the first Tuesday following the first Monday in November (election day) except that elections may be held at a different time if (a) the district is in statutory operating debt and receives commissioner's approval, (b) the election is held by mail. A referendum election may be held in the calendar year before it is levied or one year earlier.

An amount of the referendum levy equal to $315 is equalized at the 100 percent level. Beginning in the 1999-2000 school year, the equalized amount will be $350. For the 1998-99 school year, 283 districts have referendum levies totaling $261 million. In addition, most of those districts receive referendum equalization aid totaling $145 million.

Referendum revenue is capped at an amount equal to 25 percent of the basic general education formula allowance minus $300 ($808 in the 1998-99 school year). District referendum revenue may not exceed this amount except that if a district's referendum revenue is already above this amount, the district can continue to have a higher amount, but that amount may not be increased. In addition, if a district is eligible for sparsity revenue, they may exceed the referendum limit.

Referendum revenue was reduced by the general education formula increase between the 1993-94 and 1994-95 school years ($100). Also, revenue in excess of $315 per pupil unit was reduced by 25 percent of increases in training and experience revenue and compensatory revenue between the 1993-94 and 1994-95 school years. (These reductions applied first to supplemental revenue, amounts remaining after the supplemental reduction applied to referenda.) However, in a district with a low fund balance, no supplemental revenue, low adjusted net capacity, and a high referendum amount, the reduction may have been less than the increase in the formula allowance.

Referendum levies approved after November 1, 1992 must be certified on market value rather than adjusted net tax capacity (ANTC). (ANTC provides tax advantages for residential and agricultural property compared to commercial and industrial property, market value treats most property the same.) Districts with referendum levies on ANTC may convert those levies to market value over several years.

Unless set to expire sooner, most referendum revenue will expire July 1, 2000 (after the payable 2000 levy year) and will have to be approved by the voters again to be continued. Districts that convert referendum revenue from ANTC to market value may have several more years before the revenue amount expires.

Pupil Weighting - A weighted count of pupils used to determine revenue in many formulas:

One Kindergarten Pupil	=	.53 pupil units
One Elementary Pupil (grade 1-6)	=	1.06 pupil units
One Secondary Pupil (grade 7-12)	=	1.3 pupil units

A Preschool Pupil with Disabilities is counted as a pupil unit for the ratio of hours of service to 825 with a minimum of .28 pupil unit and a maximum of one pupil unit.

Actual Pupil Units or Pupil Units in Weighted Average Daily Membership (WADM) is the total of the above weighted pupil unit categories for a school district

Pupil units in Average Daily Membership (ADM) is the total headcount of students in a school district.

Categorical Revenues - Additional resources for specific school programs. Examples of categorical revenues include:

A. Targeted Needs Transportation
B. Special Education
C. Secondary Vocational
D. Debt Service Equalization Aid

Market Value - The value assigned to property by an assessor. Referendum market value allows for certain types of property that have classification rates below one to have a lower market value than the value assigned by the assessor.

Property Tax Classification Rates - Percentages applied to the market value of property to arrive at the adjusted net tax capacity. For example, residential homestead property under $75,000 has a class rate of 1 percent, the amount over $75,000 has a class rate of 1.85 percent. Tax class rates will change for taxes payable in 1999, school year 1999-2000 (when the rate will be 1.7 percent above $75,000).

Adjusted Net Tax Capacity (ANTC) - The property value used for assessing most school taxes. ANTC is determined by equalizing differences in tax capacities by property type in different counties. This equalization process compares market values to actual sales and is intended to neutralize the effect of differing assessment practices. Also, the ANTC reflects the application of the classification rates to the market value of property.

Tax Capacity Rate - The rate of taxation for a specific program. Tax capacity rates are expressed as a percent of the adjusted net tax capacity. Many tax capacity rates are set in law.

UFARS (Uniform Financial Accounting and Reporting System) - A statewide accounting procedure that must be used by school districts to record financial transactions and report financial information to the State Department of Children, Families and Learning.

School Funds - A set of financial accounts to manage school operations.

A. Operating Funds
   i. General Fund - General operations of the school district including salaries and benefits, instructional materials, supplies and custodial operations
   ii. Food Service Fund - school lunch and breakfast programs
   iii. Community Service Fund - community service, early childhood family education, adult and recreation programs

B. Non-Operating Funds
   i. Building Construction Fund - bond proceeds used to pay for building construction
   ii. Debt Service - to pay principal and interest on building project bonds
   iii. Trust and Agency Fund

Districts Off The Formula (Levy Equity) - In very high property value per pupil unit school districts, the amount raised by 36.9% x ANTC is a higher figure than pupil units x $3,530. These districts are referred to as being "off the formula." These districts receive no general education aid, and the amount raised by the general education levy that exceeds the general education formula allowance times pupil units replaces other categorical aids and credits. This provision is called levy equity. "Off the formula" districts must levy the required tax capacity rate unless that amount would exceed the general education revenue plus any categorical aids and credits.

Property Tax Timetable - Property taxes can be linked to various years. Read across the following columns to find the corresponding terms referring to property taxes and the percent of a calendar year's property taxes that are recognized as revenue in a particular school year (fiscal year):

ANTC - Property Value for Year of:	School Board Certifies Levy in Fall of	Property Taxes Payable in Calendar Year				School District Revenue for School Year
1992	1993	1994	---	36.9%	---	1993-94
			---	62.6%	---	1994-95
1993	1994	1995	---	36.9%	---	1994-95
			---	62.6%	---	1995-96
1994	1995	1996	---	18.1%	---	1995-96
			---	81.9%	---	1996-97
1995	1996	1997	---	7.0%	---	1996-97
			---	93.0%	---	1997-98
1996	1997	1998	---	7.0%	---	1997-98
			---	93.0%	---	1998-99
1997	1998	1999	---	100.0%	---	1999-2000

Beginning with property taxes payable in 1983, property taxes paid to school districts in a calendar year are recognized as revenue in two difference school years. During the 1982-83 school year, this change in revenue recognition resulted in school districts receiving approximately 132% of their anticipated property tax revenue. State aids were reduced by the additional 32% of property taxes so that the total school district revenue (state aid and property tax) received during the 1982-83 school year did not change. This recognition of approximately 132% of a year's anticipated property tax receipts occurred only during the 1982-83 school year and allowed the state to reduce education funding on a one-time basis. In 1983-84, a district received approximately 68% of its property tax revenue from the levy certified during the previous school year and approximately 32% of its property tax revenue from the levy certified in the current school year. In 1984-85, the amount of the levy certified in the current year that is also recognized as revenue in the same school year was reduced from 32% to 24%. In 1987-88, the amount was increased to 27%, in 1989-90 to 31%, in 1991-92 to 37%, and in 1992-93 to 50%. The amount was reduced to 36.9% for 1993-94. The amount was reduced to 18.1% for 1995-96 and further reduced to 7% for 1996-97. At 7%, 7% of the total property taxes paid in a calendar year 1997 or 14% of the property taxes paid in May 1997 (May property taxes are 50% of the total, 7 x 2 = 14) count as revenue in the school year (1996-97), the remainder of the May 1997 payment plus the October/November 1997 payment count as revenue in the next school year (1997-98). For taxes payable in 1998, the shift amount, set at 7%, will apply only to the general education levy. For taxes payable in 1999, the shift amount will be 0%, and most property taxes will be recognized as revenue for the 1999-2000 school year.

General Education Program Revenue

General education revenue is a combination of several revenue categories that provide the major share of funding for school districts. Most of the general education revenue is for the general operation of the school district and is not designated by the state for a specific purpose. General education revenue is a combination of levy and aid (unless the levy in a district raises the total revenue allowance).

The basic general education formula for 1998-99 is $3,530 per pupil unit and the basic general education levy is 36.9% times the adjusted net tax capacity (ANTC) of the district. Several additional components (compensatory, secondary sparsity, elementary sparsity, operating capital, transportation sparsity, transition, supplemental, graduation standards implementation, training and experience and referendum) make up total general education revenue. In addition to the levy for the basic general education formula, to receive the transition revenue and the supplemental revenue a district must levy an amount equal to its transition revenue and its supplemental revenue times the percent of general education revenue (excluding transition revenue and supplemental revenue) received from levy. The first $315 of referendum revenue is fully equalized, amounts in excess of $315 are all property taxes. [124A.03 / 124D.12]

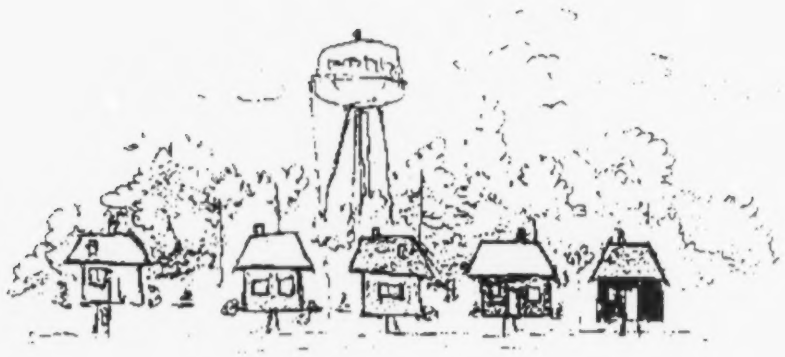
The general education revenue for 1998-99 reflects a number of changes in formula structure. The basic formula is increased by $76. Transition revenue guarantees that no district receives less revenue because of the "roll-in" in 1996-97 of transportation and training and experience, and phases other districts up to the new formula level. Transportation sparsity revenue adjusts for cost differences that were acknowledged in the old transportation formula.

Example
Gopherville School District
($ per pupil unit)

Number of Pupil Units	=	1,000
Basic Revenue	=	$3,530
Compensatory Revenue	=	$50
Secondary Sparsity Revenue	=	$10
Elementary Sparsity Revenue	=	$0
Operating Capital Revenue	=	$194
Transportation Sparsity Revenue	=	$78
Transition Revenue	=	$20
Supplemental Revenue	=	$0
Graduation Standards Implementation	=	$66
Training & Experience Revenue	=	$82
Referendum Revenue	=	$300

General Education Revenue = (Basic Revenue + Compensatory Revenue + Secondary Sparsity Revenue + Elementary Sparsity Revenue + Operating Capital Revenue + Transportation Sparsity Revenue + Transition Revenue + Supplemental Revenue + Graduation Standards Implementation Revenue + Training & Experience Revenue + Referendum Revenue) x Pupil Units

= ($3,530 + $50 + $10 + $0 + $194 + $78 + $20 + $66 + $82 + $300) x 1,000
= ($4,330) x 1,000
= $4,330,000



Basic General Education Revenue

Average Property Wealth District

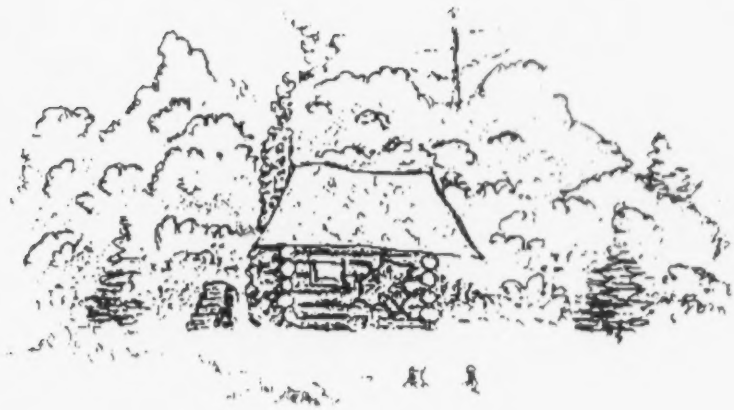
Gopherville School District

Number of Pupil Units	=	1,000
General Education Formula Allowance	=	$3,530 per pupil unit
Adjusted Net Tax Capacity (ANTC)	=	$3,500,000
Local Tax Capacity Rate for 1998-99	=	36.9% (.369)

Formula Calculation

Total Formula Allowance	-	Local Effort	=	State Aid
(Formula Allowance x Pupil Units)	-	(ANTC x Tax Capacity Rate)	=	State Aid
$3,530 x 1,000	-	$3,500,000 x .369	=	State Aid
$3,530,000	-	$1,291,500	=	$2,238,500

Average Valuation District:	State Aid Per Pupil Unit	=	$2,238.50
	Local Revenue Per Pupil Unit	=	$1,291.50
	Percent State Aid	=	64.0%
	Percent Local Revenue	=	36.0%



Basic General Education Revenue

Low Property Wealth District

Gopherville School District

Number of Pupil Units	=	1,000
General Education Formula Allowance	=	$3,530 per pupil unit
Adjusted Net Tax Capacity (ANTC)	=	$1,500,000
Local Tax Capacity Rate for 1998-99	=	36.9% (.369)

Formula Calculation

Total Formula Allowance	-	Local Effort	=	State Aid
(Formula Allowance x Pupil Units)	-	(ANTC x Tax Capacity Rate)	=	State Aid
$3,530 x 1,000	-	$1,500,000 x .369	=	State Aid
$3,530,000	-	$553,500	=	$2,976,500

Low Valuation District:	State Aid Per Pupil Unit	=	$2,976.50
	Local Revenue Per Pupil Unit	=	$ 553.50
	Percent State Aid	=	84.3%
	Percent Local Revenue	=	15.7%

Basic General Education Revenue

High Property Wealth District

Gopherville School District

Number of Pupil Units	=	1,000
General Education Formula Allowance	=	$3,530 per pupil unit
Adjusted Net Tax Capacity (ANTC)	=	$8,000,000
Local Tax Capacity Rate for 1998-99	=	36.9% (.369)

Formula Calculation

Total Formula Allowance	-	Local Effort	=	State Aid
(Formula Allowance x Pupil Units)	-	(ANTC x Tax Capacity Rate)	=	State Aid
$3,530 x 1,000	-	$8,000,000 x .369	=	State Aid
$3,530,000	-	$2,952,000	=	$578,000

High Valuation District:	State Aid Per Pupil Unit	=	$ 578.00
	Local Revenue Per Pupil Unit	=	$2,952.00
	Percent State Aid	=	16.4%
	Percent Local Revenue	=	83.6%

Comparison of State Aid and Local Revenue Contributions

BASIC GENERAL EDUCATION REVENUE

Gopherville School District - 1998-99

Number Actual Pupil Units = 1,000
General Education Formula Allowance = $3,530 per pupil unit

Property Wealth Per Pupil Unit	Low	Average	High
Adjusted Net Tax Capacity	$1,500,000	$3,500,000	$8,000,000
Local Tax Capacity Rate	36.9%	36.9%	36.9%
Local Revenue Contributions	$553,500	$1,291,500	$2,952,000
State Aid Contributions	$2,976,500	$2,238,500	$578,000
Percent State Aid	84.3%	64.0%	16.4%
Percent Local Revenue	15.7%	36.0%	83.6%
Total Basic General Education Revenue	**$3,530,000**	**$3,530,000**	**$3,530,000**

Basic Skills Revenue

Basic skills revenue includes the former Compensatory, Limited English Proficiency (LEP), LEP concentration, and Assurance of Mastery (AOM) revenues. While these revenues are combined into a single category, the total revenue is based on existing formulas for the individual components.

Compensatory revenue. Districts receive additional funding, called compensatory revenue, for students eligible to receive free and reduced price lunches, based on the count from October 1 of the previous year. Compensatory revenue must be allocated to the school site in which the pupil which generated the revenue receives instruction, and must be used to meet the educational needs of pupils whose educational progress related to state or local content or performance standards is below the level that is appropriate for pupils at that age level. Each school's site decision-making team, or instruction and curriculum advisory committee if there is no site decision-making team, must make recommendations on how the revenue is to be spent. Districts that receive compensatory revenue must maintain separate accounts for that revenue and report on its expenditure. Finally, no district may receive more that $300 per pupil unit more under the new free and reduced price lunch-based formula than it would have received using the old AFDC-based formula.

If the difference between what a district would have received using the old AFDC-based compensatory formula for 1997-98 and what the district received for 1998-99 with the new compensatory formula was less than a 35 percent increase, the district is eligible for additional one-time district-level compensatory revenue of $216 per compensatory pupil unit for the 1998-99 school year only. In addition, some named districts will receive a grant amount for the same purposes. [124.17, 1d; 124A.22, 3; 124A.28 / 120D.02, 3; 124D.05, 4; 124D.10]

Compensatory revenue is calculated by multiplying compensation pupil units times the general education formula allowance. Compensation pupil units equal .6 x [the sum of the number of students receiving free lunch and .5 x students receiving reduced price lunches] x the lessor of (a) 1, or (b) the quotient of the following calculation divided by 80: number of free lunch pupils plus half the number of reduced price lunch pupils divided by the total number of pupils times 100.

Limited English Proficiency Revenue. School districts with Limited English Proficient (LEP) students receive aid to recognize the additional cost of educating these students. A LEP student is defined as one whose primary language is not English and whose score on an English reading or language arts test is significantly below the average score for students of the same age.

LEP revenue in 1998-99 is equal to 68% of the salaries of LEP teachers plus 47% of the cost of supplies and equipment up to $47 per student in the base year. The base year for 1998-99 is 1996-97. A district is allowed one full-time LEP teacher for each 40 LEP students or a proportionate amount for fewer students. However, a district with fewer than 20 LEP students is funded on the basis of one half-time teacher. Districts also receive LEP concentration revenue, which provides additional revenue when a district has a higher concentrations of LEP pupils.

The base year funding is adjusted by the change in the number of LEP students in the current year compared to the base year. LEP concentration revenue is computed by taking the lessor of 1, or the result of dividing the concentration percentage (which is 100 times the ratio of current year LEP pupils to total average daily membership) by 11.5 and multiplying that number by the number of current year LEP students and the concentration revenue formula amount.

Assurance of Mastery Revenue. Districts that have identified direct instructional services to assure that K-8 pupils master learner outcomes in communications and math are eligible for state aid up to $22.50 per K-8 pupil unit. The state aid must be matched by other district revenue. [124.311 / 120B.50]

Example -- **Compensatory** Component of Basic Skills
Gopherville School District, Central School

Number of pupils (ADM)	=	500
Number of pupils receiving free lunches	=	40
Number of pupils receiving reduced price lunches	=	100
General Education Formula Allowance for Compensatory	=	$3,530

Compensation pupil units = (40 + (100/2)) x .6 x the lessor of (a) 1 or (b): $\frac{(40+(100/2))}{100 \times \frac{500}{80}}$

= 54.0 x the lessor of (a) 1 or (b) $\frac{18.0}{80}$

= 54.0 x the lessor of 1 or .225

= 54.0 x .225 = 12.2

Maximum Compensatory Revenue = Compensatory pupil units x General Ed Formula Allowance
= 12.2 x $3,530
= $43,509

Example -- **One-Time Compensatory** Component of Basic Skills
Gopherville School District

Old Revenue (Compensatory Revenue, per pupil, AFDC formula, 1998)	=	$35
New Revenue (Compensatory Revenue, per pupil, current formula, 1999)	=	$44
Compensatory pupil units	=	12.2

Eligible only if: $\frac{\text{New Revenue - Old Revenue}}{\text{Old Revenue}} < .35$

Eligible because: $\frac{\$44 - \$35}{\$35} = .257$

One-Time Compensatory Revenue	=	$216 x compensatory pupil units
(since Gopherville is eligible)	=	$216 x 12.2
	=	$2,635

Example - **LEP** Component of Basic Skills
Gopherville School District

Number of Pupils (ADM)	=	1,000
Number of LEP Students in the Base Year (1996-97)	=	65
Number of LEP Students in the Current Year	=	68
Base Year LEP Revenue	=	$37,000
Concentration Revenue Formula Amount	=	$190

1998-99 LEP Revenue = LEP Regular Revenue + LEP Concentration Revenue

LEP Regular Revenue

= 1996-97 Revenue x $\frac{\text{1998-99 LEP Students}}{\text{1996-97 LEP Students}}$

= $37,000 x $\frac{68}{65}$

= $37,000 x 1.046

= $38,708

LEP Concentration Revenue

= 1998-99 LEP Students x Concentration Formula x Concentration Pupil Units

= 68 x $190 x the lessor of (a) 1 or (b): $\frac{68}{100 \text{ x } \frac{1000}{11.5}}$

= 68 x $190 x the lessor of 1 or .59

= 68 x $190 x .59

= $7,689

1998-99 LEP Total Revenue = LEP Regular Revenue + LEP Concentration Revenue

= $38,708 + $7,689

= $46,397

Example - **AOM** Component of Basic Skills
Gopherville School District

Number of K-8 Pupils (ADM)	=	750
Gopherville spending per pupil eligible as match	=	$22.50

1998-99 AOM Revenue = K-8 pupils x matched amount (up to $22.50)
= 750 x $22.50
= $16,785

Example - Total Basic Skills Revenue
Gopherville School District

Compensatory Revenue (Central School Site)	$43,509
Compensatory Revenue (Country School Site)	$0
Compensatory One-Time District Level	$2,635
LEP Revenue	$46,397
AOM Revenue	$16,785

Basic Skills Revenue = Compensatory Revenue + LEP Revenue + AOM Revenue
= $43,509 + $2,635 + $46,397 + $16,785
= $109,326

Secondary Sparsity Revenue

Districts with one or more sparsely populated high school attendance area may be eligible for additional revenue to meet the higher cost of operating a secondary program with a small number of students. To be eligible, a high school must have an isolation index greater than 23 and less than 400 pupils in average daily membership. If a district has more than one high school, the district's sparsity revenue is the sum of the calculation for each high school. Districts with certain reforested lands have an additional factor in the formula that increases sparsity revenue. [124A.22, 6 / 124D.05, 8]

Example
Gopherville School District

Pupil Units (WADM)	=	530
Secondary Average Daily Membership (ADM)	=	250
General Education Formula Allowance for Sparsity	=	$3,530
High School Attendance Area	=	356 square miles
Distance from High School to Nearest High School	=	22 miles

Isolation Index (ii) = $\sqrt{.55 \times AttendanceArea}$ + miles to nearest high school

= $\sqrt{.55 \times 356}$ + 22

= $\sqrt{196}$ + 22

= 14 + 22

= 36

Secondary Sparsity Revenue = Formula Allowance x Sec. ADM x $\frac{(400\text{-Sec ADM})}{(400+\text{Sec ADM})}$ x the lesser of: a) 1.5 b) $\frac{\text{ii}-23}{10}$

= \$3,530 x 250 x $\frac{(400-250)}{(400+250)}$ x the lesser of a) 1.5 b) $\frac{36-23}{10}$

= \$3,530 x 250 x $\frac{150}{650}$ x the lesser of a) 1.5 or b) $\frac{13}{10}$

= \$3,530 x 250 x .23 x the lesser of a) 1.5 or b) 1.3

= \$3,530 x 250 x .23 x 1.3
= \$3,530 x 250 x .299
= \$3,530 x 74.75
= \$263,867.50

Secondary Sparsity Revenue per WADM = \$263,867.50 / 530 = \$497.86

Elementary Sparsity Revenue

Districts with a sparsely populated elementary school attendance area may be eligible for additional revenue to operate the elementary school. To be eligible, an elementary school must have an average of 20 or fewer pupils per grade level and be located 19 miles or more from the nearest elementary school. [124A.22, 6a / 124D.05, 9]

Example

Gopherville School District
ABC Elementary School

Grades K-6 Pupil Units (WADM)	=	100
General Education Formula Allowance for Sparsity	=	$3,530
Distance to Nearest Elementary School	=	23 miles

Formula Calculation

Elementary Sparsity Revenue

$$= \text{Elementary WADM} \times \text{Formula Allowance} \times \frac{(140 - \text{Elem WADM})}{(140 + \text{Elem WADM})}$$

$$= 100 \times \$3{,}530 \times \frac{(140 - 100)}{(140 + 100)}$$

$$= 100 \times \$3{,}530 \times \frac{40}{240}$$

$$= 100 \times \$3{,}530 \times .1667$$

$$= 100 \times \$588.45$$

$$= \$58{,}845$$

(The 140 used in the formula assumes 20 pupils in each of grades K-6. If this elementary school had fewer than seven grades, the formula would be adjusted for the actual number of grades).

Operating Capital Revenue

Operating capital revenue is available for repair and betterment of facilities, acquisition of land, purchase or lease of equipment, and purchase of books. Operating capital revenue is placed in the operating capital account in the general fund. Operating capital revenue is based on two former components of a capital expenditure funding formula--facilities revenue and equipment revenue. The formula generates revenue of $100 per pupil unit plus a weighting for the average age of the district's buildings. The old formula was $128 per pupil unit. The equipment revenue component is $68 per pupil unit. In addition, a district with a learning year program receives an additional $30 per pupil unit at the site a program is in place. [124A.22, 10, 11, 12 / 124D.05, 14, 15, 16]

Example - Operating Capital Formula

Gopherville School District

Number of Actual Pupil Units	= 1,000
Operating Capital (facilities component)	= $100 per actual p.u.
Average Age of District Buildings	= 25 years
Maintenance Cost Index	= 1.25 (1 + ratio of average age to 100)
Operating capital (equipment component)	= $68 per actual p.u.

Regular Operating Capital Revenue

Operating Capital Per Pupil Revenue =
equipment component + (facilities component x maintenance cost index)

= $68 + ($100 x 1.25)

= $68 + $125

= $193

Regular Revenue = pupil units x operating capital per pupil revenue

= 1,000 x $193

= $193,000

Transportation Sparsity Revenue

Beginning in 1996-97, a major portion of the funding of transporting students in rolled into the basic general education formula. To recognize the additional costs of transporting students in those districts with fewer students per square mile, the transportation sparsity formula provides additional funding based on the number of students per square mile. The actual formula uses logarithms to calculate a revenue amount. The final part of the formula subtracts $170, this is the $170 by which the general education formula has been increased. [124A.22, 13, 13a / 124D.05, 18, 19]

For this formula, sparsity index means the greater of .2 or the number of square miles in the district divided by the number of pupil units (WADM). Density index means the number of square miles divided by the number of pupil units (WADM), however, the density index may not be greater than .2 or less than .005.

Example

Gopherville School District

Number of Pupil Units	=	1,000
Number of Square Miles	=	90
Basic General Education Formula	=	$3,530
District Sparsity Index	=	.20
District Density Index	=	.09

Transportation Sparsity Revenue Per Pupil Unit = [(formula allowance x .1469) x (the logarithm of the district's sparsity index and .26) x (the logarithm of the district's density index and .13)] - (formula allowance x .0485)

= [($3,530 x .1469) x (the log of .2 and .26) x (the log of .09 and .13)] - ($3,530 x .0485)

= [$519 x .658063 x .731226] - $174

= $250 - $174

= $76

Total Transportation Sparsity Revenue = Revenue Per Pupil Unit x Pupil Units

= $76 x 1,000

= $76,000

Graduation Standards Implementation Revenue

Graduation standards implementation revenue equals $52 per pupil for implementing the state's graduation rule through staff development (at least $20 per pupil), technology, class size reduction and gifted and talented programs (at least $5 per pupil). An additional $14 per pupil (dedicated for staff development purposes) is added if school districts choose to immediately fully implement the graduation rule for the 1998-99 school year. Districts which choose to phase-in the graduation standards over three school years would not receive the additional $14 per pupil. In addition, districts whose referendum is still reduced by the $100 reduction from 1993 are eligible for a graduation standards implementation equity adjustment of $34 per pupil in additional revenue for the same purposes. For the 1999-2000 school year and later, all districts will receive $43 per pupil, and districts which qualified for the additional $34 per pupil due to the referendum reduction will receive an the $43 per pupil, plus $25 per pupil. [124A.22, 14 / 124D.05, 24]

Example
Gopherville School District

Pupil Units	1,000
Immediately implementing the graduation rule?	Yes
Referendum still reduced by $100 (or a portion thereof) from 1993?	Yes

Graduation Standards Implementation Revenue = 1,000 x ($52 + $14 + $34)

= 1,000 x 100

= $100,000

Training and Experience Revenue

Training and experience revenue is allocated to school districts based on the experience and education of its teaching faculty. Beginning in 1998-99, only faculty who were on the school's payroll in the 1996-97 school year are included in the determination of training and experience revenue. As teachers retire, training and experience revenue will be phased-out. Teachers hired after 1998-99 are not included in the training and experience calculation.

Training and experience revenue is determined using a method which sorts the number of teachers into a matrix, prepared by the Department of Children, Families and Learning as reported by school districts, based on the number of staff at each training level (BA, BA+15, MA, etc.) and years of teaching experience. The matrix below does not include all training and experience levels. The district's training and experience index is the average of the training and experience levels of all its staff. The matrix shows the relationship of the statewide average salary at each position on the matrix to the statewide average salary. To calculate training and experience revenue, take the district index minus 0.8 times $660 times pupil units. [124A.04 / 124D.06]

Example
Gopherville School District

Number of Pupil Units	1,000
District Training and Experience Index	1.120

Training and Experience Revenue	=	(District Index - 0.8) x 660 x pupil units
	=	(1.12 - 0.8) x $660 x 1,000
	=	.32 x $660 x 1,000
	=	$211.10 x 1,000
	=	$211,100

Transition Revenue

Beginning in 1996-97, the basic formula increased in part by $170 per pupil unit to represent the "roll-in" of transportation revenue. Transition revenue provides that if a district in 1995-96 had received more than the $170 in transportation revenue (excluding the amounts reflected in the transportation sparsity revenue and the targeted needs transportation revenue) the district will be guaranteed those amounts as transition revenue. In addition, a compensatory transition component guarantees that a districts will receive as much revenue under the new compensatory formula (based on free and reduced price lunch student counts) as they would have under the old compensatory formula (based on AFDC counts), but also that no district can receive more than $300 per pupil under the new formula than they would have received under the old formula. Transition revenue is an aid and levy combination in a similar ratio as the general education formula. 177 school districts have transition revenue of $19 million for 1998-99. [124A.22; 13b, 13c, 13d, 13e / 124D.05, 20, 21, 22, 23]

Example
Gopherville School District

Number of Pupil Units - 1998-99	1,000
1995-96 Transportation Revenue (excluding other components)	$ 180
1998-99 Portion of General Education Formula Reflecting Transportation	$ 170
1998-99 Compensatory Revenue	$ 120
1997-98 Compensatory Revenue under the old AFDC formula	$ 150

Transportation Transition Calculation: $170 compared to district 1995-96 transportation revenue
1.) If $170 is less than 1995-96 amount, district is guaranteed 1995-96 amount,
2.) If $170 is more than 1995-96 amount, district receives $170.

Gopherville Transportation Transition Revenue = $10 [Difference: $180 - $170 = $10]

Compensatory Transition Calculation: 1998-99 Compensatory Revenue per pupil compared with what 1997-98 AFDC revenue would have been

1.) If the 1998-99 amount is less than what the 1997-98 amount would have been using the old AFDC formula, the district receives the difference.
2.) If the 1998-99 amount is more than what the 1997-98 amount would have been using the old AFDC formula, the district receives nothing.

Gopherville Transition Training & Experience Revenue = $30 [Difference: $150 - $120 = $30]

Transition Revenue Per Pupil Unit = Transportation Transition Revenue [$10] + Compensatory Transition Revenue [$30] = $40

Total Transition Revenue Adjustment = Transition Revenue Per Pupil Unit x Pupil Units
= $40 x 1,000
= $40,000

Supplemental Revenue

In 1998-99, a district is guaranteed the same amount per pupil of supplemental revenue as it received in 1992-93 with reductions as described below.

The original basis for the supplemental revenue was the revenue level of the district in various categories in 1987-88. These categories were combined into the general education formula. The effect of the supplemental revenue is to guarantee a minimum increase over the formula factors in place in 1987-88.

The district's supplemental revenue amount from 1992-93 is reduced by $100 (representing the increase in the formula allowance between 1993-94 and 1995-95) and by 25% of all increases in training and experience revenue and compensatory revenue between 1993-94 and 1995-96. Through 1998-99, the supplemental revenue reduction is not reduced by the full amount in lower property wealth school districts. For 1997-98 and later, the district's supplemental revenue is increased by an amount equal to the revenue lost by the district due to the elimination of the Post-Secondary Enrollment Options program.

Supplemental revenue is a combination of levy and aid in the same ratio as the district's general education revenue. [124A.22, 8, 8a, 8b, 9 / 124D.05, 10, 11, 12, 13]

Example

Gopherville School District

Number of Pupil Units	=	1,000
Percent of General Education Revenue From Levy	=	40%
Supplemental Revenue Per Pupil Unit 1996-97	=	$20

Supplemental Revenue	=	Supplemental Revenue Per Pupil Unit x Pupil Units
	=	$20 x 1,000
	=	$20,000
Supplemental Levy	=	Supplemental Revenue x Percent Levy
	=	$20,000 x 40.0%
	=	$8,000
Supplemental Aid	=	Supplemental Revenue - Supplemental Levy
	=	$20,000 - $8,000
	=	$12,000

General Education Revenue - Reserved Revenue and Reductions

Learning and Development Revenue

Of a district's basic general education revenue, an amount equal to .06 times kindergarten through sixth grade pupil units must be reserved for class size reduction. The reserved revenue must be used to reduce and maintain the instructor to student ratio in elementary grades to 1 to 17 beginning with kindergarten and first grade. [124A.225 / 124D.07]

Revenue for Staff Development

An amount equal to one percent of the per pupil basic formula amount ($35.30) must be spent for staff development. This one percent can include any staff development spending funded with Graduation Standards Implementation Revenue. [124A.29, 1 / 125A.80, 1]

Contract Settlement Deadline Penalty

State aid is reduced by $25 per pupil unit if a district and the exclusive representative of the teachers have not signed a collective bargaining agreement by January 15 of the year following the expiration the teacher's contract (teacher contracts expire June 30 of each odd numbered year). The penalty does not apply if the unresolved issues have been submitted to binding arbitration by December 31. For districts that have reorganized, the deadline date is March 15 instead of January 15. This penalty is suspended for the 1997-98 and 1998-99 school years. [124A.22, 2a / 124D.05, 3]

Referendum Revenue

A school district may increase its general fund revenue by a referendum approved by the voters of the district. The ballot question must state the amount of the increased revenue in dollars per pupil unit and the tax capacity rate in the first year it is to be in effect. The additional revenue authority may be approved for up to ten years. This revenue authority can be revoked by referendum.

Such a referendum may be held only on the first Tuesday after the first Monday in November (Election Day) unless (a) the district is in statutory operating debt and receives approval of the Commissioner of Children, Families, and Learning to hold the referendum on a different date, or (b) the election is held by mail. A referendum election may be held in the calendar year before it is levied, or one year earlier.

An amount of the referendum revenue equal to $315 per pupil unit of referendum levies will be equalized at 100 percent. Referendum revenue amounts in excess of $315 are not equalized, they are totally local property tax. Beginning in 1999-00 (for taxes payable in 1999), the first $350 of referendum will be equalized.

Referendum amounts are limited to an amount not to exceed 25 percent of the basic general education formula allowance minus $300 or $807.50 (($3,530 - $300) x .25) in 1998-99. If a district's previous referendum amount exceeded this limit, the district's revenue limit continues at the higher level but may not be increased.

Referendum amounts were reduced by $100 (the increase in the general education formula between 1993-94 and 1994-95). Also, referenda over $315 per pupil unit were reduced by 25 percent of all increases in training and experience revenue and compensatory revenue between 1993-94 and 1995-96. (These reductions were applied first to supplemental revenue, amounts remaining after the supplemental revenue reduction apply to referenda.) However, in a district with a low fund balance, no supplemental revenue, low ANTC, and a high referendum amount, the reduction may have been less than the increase in the formula allowance.

Most referendum approved after November 1, 1992 are certified on market value rather than on adjusted net tax capacity (ANTC). (ANTC provides tax advantages for residential and agricultural property compared to commercial and industrial property; market value treats most property the same.) Districts with referendum levies on ANTC may convert those levies to market value over several years.

Unless set to expire sooner, most referendum revenue will expire July 1, 2000 (after the payable 2000 levy year) and will have to be approved again by the voters to be continued. Districts that convert from ANTC to market value may have several more years before the revenue amount expires.

Referendum Revenue (example)

This example assumes voter approval of a referendum and a school board decision to levy the full authorized amount. It also assumes the referendum is levied on ANTC rather than market value.

Gopherville School District

Number of Pupil Units	=	1,000
Property Market Value	=	$3,500,000
Referendum Revenue Per Pupil Unit	=	$300
Equalizing Factor	=	$10,000

Revenue Calculation

Referendum Revenue = Referendum Revenue Per Pupil Unit x Pupil Units
= $300 x 1,000
= $300,000

Levy Calculation

(This equalization example applies for amounts less than $315 per pupil unit, amounts above $315 are totally levy.)

$$\text{Levy} = \text{Referendum Revenue} \times \frac{\text{District Market Value/P.U.}}{\text{Equalizing Factor}}$$

$$= \$300{,}000 \times \frac{\$3{,}500}{\$10{,}000}$$

$$= \$300{,}000 \times .35$$

$$= \$105{,}000$$

Aid Calculation

Aid = Referendum Revenue - Referendum Levy

= $300,000 - $105,000

= $195,000

Determination of the Equalizing Factor - 1998-99

General Education Formula Allowance Per Actual Pupil Unit = $3,530

General Education Tax Capacity Rate = .369

Equalizing Factor = $\frac{\text{General Education Formula Allowance}}{\text{General Education Tax Capacity Rate}}$

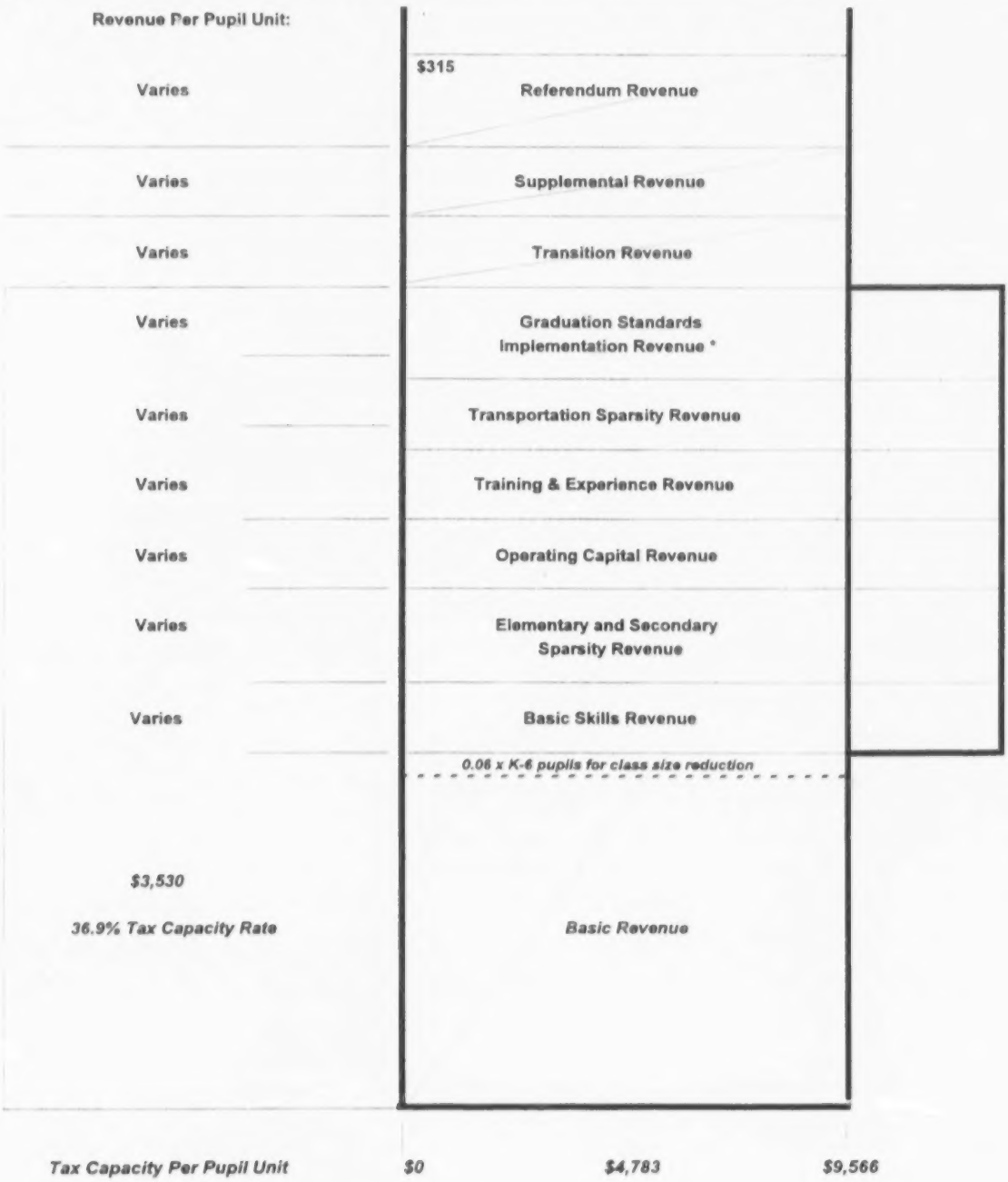
= $\frac{\$3,530}{.369}$

= $9,566

The equalizing factor defines the level at which the state equalizes the basic general education formula. For every 1% of tax capacity levied, the state guarantees the district will receive $95.66 per actual pupil unit ($9,566 x .01 = $95.66). When a school district's ANTC per actual pupil unit exceeds $9,566, the district will be off the basic formula. If a school district's ANTC is $4,000 per actual pupil unit (41.8% of $9,566), it would receive 41.8% of its basic general education revenue from the general education levy and 58.2% from state general education aid.

Formulas that are equalized at 100% of the equalizing factor are guaranteed to raise $95.66 per actual pupil unit for each 1% of tax capacity levied. A formula that is equalized at 50% of the equalizing factor is guaranteed to raise $47.83 per actual pupil unit for each 1% of tax capacity levied (.50 x $9,566 = $47.83).

1998-99 General Education Funding Program



* For FY 99, Graduation Standards Implementation Revenue is all state aid

Special Education

Districts receive funding to recognize a portion of the additional costs of providing required services to handicapped students. [124.3202; 124.321]

Regular special education revenue provides districts with 68% of the salaries of special education teachers, related services and support services staff providing direct services to students in a base year adjusted for total enrollment change in the school district, a growth factor, and prorated so that combined district revenues do not exceed the state total special education revenue, $435.3 million in 1998-99. State aid for special education in 1998-99 is 90 percent of the revenue and has been increasing by 10 percentage points each year until 1999-2000, when it will be 100 percent. The state funds to increase the state aid percentage come from a transfer of school HACA funds into special education funding. The difference between the state aid and the revenue amount is available through an equalized levy and aid.

Special education revenue in 1998-99 is calculated by taking the special education revenue for the base year (the base year for 1998-99 is 1996-97) and adjusting it for enrollment growth in the district and by a growth factor. For 1998-99, the growth factor is approximately 2% over the base year.

Base year revenue includes:

a) 68% of the salaries of teachers, persons providing related services to students and support service staff providing direct services to students;
b) 47% of supplies, materials and equipment up to $47 per student;
c) 52% of the difference between the general education basic allowance and the cost to a resident district for special education services provided by contract with agencies other than school districts;
d) Funding for summer programs in categories (a), (b), and (c) listed above.

Example
Gopherville School District

Number of Pupils in Average Daily Membership in Base Year (1996-97)	=	961
Number of Pupils in Average Daily Membership in Current Year	=	1,000
Base Year Special Education Revenue	=	$150,000
Program Growth Factor for 1998-99	=	2.0%
Adjusted Net Tax Capacity (ANTC)	=	$3,000,000
Equalizing Factor for Special Education Equalization	=	$3,540

$$\text{1998-99 Special Education Revenue} = \text{1996-97 Revenue} \times \frac{\text{1998-99 ADM}}{\text{1996-97 ADM}} \times \text{Program Growth Factor}$$

$$= \$150{,}000 \times \frac{1{,}000}{961} \times 1.02$$

$$= \$159{,}209$$

Aid = $159,209 x .90

= $143,288

The levy is equalized for school districts with ANTC per pupil unit lower than $3,540.

Levy and Equalization Aid = $159,209 x .10

= $15,921

Levy = Equalization Revenue x $\frac{\text{District ANTC/P.U.}}{\text{Special Education Equalizing Factor}}$

= $15,921 x $\frac{\$3,000}{\$3,540}$

= $15,921 x .847 = $13,485

Equalization Aid = Equalization Revenue - Levy
= $15,921 - $13,485
= $2,436

Total Special Education Aid = Regular Aid + Equalization Aid
= $143,288 + $2,436
= $145,724

Additional special education aid categories:

1. **Excess Cost Aid** - If a district's special education cost per pupil unit that is not reimbursed by the special education formula is greater than 5.7% of the district's general education revenue plus referendum revenue per pupil unit, a district will receive special education excess cost aid equal to the greater of: a) 70% of the amount of the unreimbursed cost or b) 70% of the increase between the base and current year or c) 1.6% of general education revenue. [124.323 / 120B.24]

2. **Home Based Travel Aid** - Aid is provided to reimburse 50% of the travel costs of personnel providing home-based travel services to children under age five with disabilities. [124.32, 2b / 120B.20, 1]

3. **Special Pupil Aid** - Districts are reimbursed for the special education costs not covered by other special education funding or the general education formula for students with disabilities residing in public or private residential facilities in the district and for whom there is no school district of residence because parental rights have been terminated or the parents can not be located. [124.32, 6 / 120B.20, 3]

Secondary Vocational Education

Districts with state approved secondary vocational programs are eligible for aid to offset part of the cost of those programs. [124.573 / 120B.66]

Secondary Vocational Education Aid - 1998-99

Secondary Vocational Aid equals the lesser of:

a) $80 times the number of pupils in grades 10-12, or
b) 25 percent of the vocational expenditures including salaries of essential, licensed vocational personnel providing direct services to students secondary vocational classes; necessary instructor travel, curriculum development; supplies; and non-school district contracted services.

However, districts are guaranteed an amount of secondary vocational aid equal to the lesser of:

a) 95 percent of the secondary vocational aid received by the district in the previous year, or
b) 40 percent of the expenditures listed under "b" above.

Up to ten percent of a district's secondary vocational aid may be spent on equipment purchases.

Example
Gopherville School District

Number of Pupil Units	=	1,000
Number of Pupil (ADM) in Grades 10-12	=	190
Secondary Vocational Teacher Salaries	=	$65,000
Other Eligible Secondary Vocational Expenses	=	$5,000
1996-97 Secondary Vocational Aid	=	$15,065

Secondary Vocational Aid
= the lesser of: (a) $80 x 190 [$15,200], or
(b) ($65,000 + $5,000) x .25 [$17,500]

The guarantee
= the lesser of: (a) $15,065 x .95 [$14,312], or
(b) ($65,000 + $5,000) x .40 [$28,000]

The district will receive $15,200 in 1998-99.

Cooperation Program Funding

1. District Cooperation Revenue

Districts are eligible for district cooperation revenue of $67 per pupil unit. This revenue replaces revenue for education districts, intermediate districts, secondary vocational cooperatives, interdistrict cooperation, special cooperation for large districts, educational cooperative service units, and regional management information centers. The equalization level is $3,500. District cooperation revenue goes directly to the school district which can then buy services from cooperatives (districts can also opt for payments to go directly to cooperatives). District cooperation revenue must be placed in a reserved account and used to purchase goods and services from cooperative entities. A district that was a member of an intermediate school district on July 1, 1996 must allocate an amount of its cooperation revenue equal to 5/11 of its prorated share of 1994-95 intermediate district revenue for special education programs and 6/11 of its prorated share of 1994-95 intermediate district revenue for secondary vocational programs. Districts that were not members of intermediate districts on July 1, 1994 must use at least $9 per pupil unit of the cooperation revenue for secondary vocational programs. [124.2727 / 124D.29]

2. Consolidation Transition Revenue

Districts that consolidate are eligible for state aid of $200 per pupil unit in the first year of the consolidation and $100 per pupil unit in the second year. The number of pupil units used to calculate this aid may not exceed 1,500. This funding is intended to cover early retirement costs of employees, operating debt of the districts, enhancing learning opportunities and for other costs of reorganization. If this aid is not adequate to cover the early retirement costs, the district may levy for the additional amount. [124.2726 / 124D.28]

3. Cooperation and Combination Revenue

Districts that have adopted a plan to cooperate and then combine are eligible for additional revenue. The cooperation and combination revenue is $100 per pupil unit for the first four years of the agreement. The revenue is equalized but at a declining level each year. In addition, the districts are eligible for additional grants of $100 per pupil unit in the first year of cooperation and $100 per pupil unit in the first year of combination. No new groups of districts are eligible for cooperation and combination revenue after the 1994-95 school year. [124.2725 / 122A.21]

Capital Expenditure Related Programs

Health and Safety

Capital expenditure health and safety revenue is available for hazardous substance removal, fire and life safety code repairs and health, safety, environmental and air quality management. Health and safety revenue is equalized slightly below 50 percent of the equalizing factor. [124.83 / 124D.66]

Example - Health and Safety Revenue

Gopherville School District

Number of Actual Pupil Units	=	1,000
Adjusted Net Tax Capacity (ANTC)	=	$3,000,000
Equalizing Factor for Health & Safety Revenue	=	$4,707.50
Approved Health & Safety Revenue	=	$75,000

Revenue = Amount approved by the commissioner in accordance with district plan
= $75,000

Levy = Revenue x Lesser of: (a) 1, or (b) $\frac{\text{District ANTC per P.U.}}{\$4,707.50}$

= Revenue x Lesser of: (a) 1, or (b) $\frac{\$3,000}{\$4,707.50}$
= $75,000 x 63.7%
= $47,796

Aid = Revenue - Levy
= $75,000 - $47,796
= $27,204

Disabled Accessibility
A school district may levy up to $300,000 over a period of eight years beginning with taxes payable in 1993 for the costs of making school buildings accessible for students or employees with disabilities. [124.84 / 124D.67]

Interactive Television (ITV) Revenue
School districts outside of the metropolitan area are eligible to receive ITV revenue. Revenue is the greater of .5 percent times district ANTC or $25,000 per district. The revenue is fully equalized. Revenue amounts must be approved by the Commissioner of Children, Families and Learning. Beginning in 1999-2000, ITV revenue will be reduced by 25 percent per year, until 2002-03, when it will no longer exist. [124.91, 5 / 124D.69, 4]

Debt Service Revenue

School districts may issue general obligation bonds to finance capital improvements. The issuance of the bonds must be approved by a majority of the voters in a referendum. The district must then levy each year an amount necessary to meet its debt obligation. Debt service levies are equalized at an equalizing factor of $4,707.50 (about 50% of the general education formula equalizing factor) for the amount that the debt service levy in a school district exceed 10% of adjusted net tax capacity. [124.95 / 124D.61]

Example

Gopherville School District

Number of Pupil Units	=	1,000
Adjusted Net Tax Capacity	=	$3,000,000
Debt Service Revenue Needed in 1998-99	=	$630,000
Equalizing Factor for Debt Service	=	$4,707.50

Unequalized Debt Service Levy (first 10%) = 10% x ANTC
= .10 x $3,000,000
= $300,000

Equalized Debt Service Levy =
Debt Service Revenue Needed - Unequalized Levy x $\frac{\text{District ANTC/P.U.}}{\text{Debt Service Equalizing Factor}}$

= ($630,000 - $300,000) x $\frac{\$3,000}{\$4,707.50}$

= $330,000 x .637

= $210,210

Total Debt Service Levy = Unequalized Debt Service Levy + Equalized Debt Service Levy

= $300,000 + $210,210

= $510,210

Debt Service Aid = Debt Service Revenue Needed - Total Debt Service Levies

= $630,000 - $510,210

= $119,790

Other Categorical Revenue - 1998-99

1. Abatement Revenue - A replacement for anticipated property tax receipts because property valuation has been reduced after the levies were certified. The aid applies to equalized levies only; districts may make an adjustment levy the next year for the remaining revenue loss. Districts may also levy for the shortfall in abatement aid. [124.214, 2; 124.912, 9 / 121A.72, 2; 124D.39, 6]

2. Advanced Placement and International Baccalaureate Programs - The fee for the first A.P. or I.B. exam for all students taking an exam, a portion of the fee for additional exams depending on income levels and a portion of the training costs for teachers in advanced placement or international baccalaureate courses will be reimbursed. [126.239 / 120B.92]

3. Crime Related Costs - A district may levy up to $1.50 times the population of the district for the costs of peace officers used for school liaison services, drug prevention programs, and gang resistance education programs. [124.912, 6 / 124D.39, 4]

4. First Grade Preparedness Grants - For the 1996-97, 1998-99 and 1998-99 school years certain school sites are eligible for funding to operate full day kindergarten programs of half day programs for four year olds to develop reading and other skills necessary to succeed in school. School sites with the highest concentrations of pupils eligible for free and reduced price lunch are eligible for funding. The funding is the amount equal to .53 times pupils enrolled in the program times the general education formula allowance. [124.2613]

5. Gifted and Talented Programs - Districts can receive grants to help them identify and challenge gifted and talented students, and provide staff development for teachers to help meet those students' needs. A one to one match with school district funds or in-kind contributions is required. In addition, school districts must reserve $5 per pupil of their graduation standards implementation revenue for gifted and talented programs.

6. Historic Building Revenue - A district which maintains a building listed on the National Register of Historic Places is eligible for revenue equal to $100 per pupil served in that building. The revenue is divided between aid and levy. [124.825 / 124D.64]

7. Homeless Student Revenue - In addition to regular graduation incentives revenue, districts can receive additional revenue for homeless pupils who are eligible to participate in this program. The revenue is equal to $100 per pupil unit, and must be used for expanding education services to include preschool, after-school, or summer school programs to provide transition and follow-up services to homeless pupils who are placed or mainstreamed in a district school, or to provide parent education and support services. [126.225]

8. Integration Revenue - This replaces the old operating and transportation integration aid, combining it into a single amount, distributed on a per pupil formula. The per pupil amounts are $173 per pupil unit for Duluth, $427 per pupil unit for St. Paul and $523 per pupil unit for Minneapolis, and the lessor $93 or a district's actual costs, for any other district that implements a desegregation program (currently, only the school districts in the cities of the first class operate

integration programs). Integration revenue must follow students to their district of attendance if the enrollment contributes to desegregation or integration purposes. [124.315 / 120B.88]

9. Learn and Earn - This program provides funding to ensure educational opportunities for at-risk students. In addition to basic education, students must perform community service, basic competency above regular classroom instruction, and cultural and life-skills enrichment. Upon completion of various aspects of the program, students receive stipends and scholarships. [126.79]

10. Learning Site Technology Grants - Grants for districts and groups of districts, to fund technology projects. Eligible projects include, but are not limited to, hardware and software purchases or leasing and installation, establishment or expansion of networks, technical support, and training and staff development in the use of technology and software. Districts with over 5,000 students must provide a match of $1 local money and $1 of non-state or non-district money, or in-kind contributions. Districts under 5,000 students must demonstrate attempts to provide a match.

11. Low-Income Concentration Grants - School sites where at least 20 percent of the students are eligible for free and reduced price lunch and at least 20 percent are minority and that are in school districts where at least 10 percent of the students are eligible for free and reduced price lunch, at least 10 percent are minority, at least 1,500 students are in the district and the district is in the seven-county metropolitan area but not Minneapolis or St. Paul are eligible for grants of $50,000.

12. Minority Teacher Incentives - Districts with integration\desegregation plans or a minority enrollment greater than 10% are eligible for grants of one-half but not to exceed $20,000 of the salary of minority teachers who have not previously taught in Minnesota. [124.278 / 125A.67]

13. Nonpublic Pupil Transportation - Nonpublic pupil transportation revenue is equal to the cost per pupil of providing transportation services in the base year (the second prior year, for 1998-99 the base year is 1996-97) and then adjusted for the change in the general education formula allowance between the current year and the base year.

13. School Breakfast Aid - Schools are eligible to receive 5.1 cents for each fully paid breakfast and each free and reduced price breakfast not eligible for the "severe need" rate. In addition, districts are eligible for an additional 10.5 cents for each free and reduced breakfast not eligible for the "severe need" rate if between 33 and 40 percent of the school lunches are served free or reduced. [124.6469 / 124D.33]

14. School Lunch Aid - Schools are eligible to receive up to 6.5 cents of state funding for each lunch served. [124.646 / 124D.30]

15. Secondary Vocational Programs for Children With Disabilities - Vocational programs for students with disabilities are eligible for salary, equipment and materials, travel and contract reimbursements similar to special education. [124.574 / 120B.67]

16. Telecommunications Access Grants - A district may apply for a grant to establish telecommunications connections among school districts and to the MNet statewide network and to enhance telecommunications capacity within the district. [124C.74]

17. Transportation Safety Revenue - The greater of $500 per district or $1.50 per pupil unit is available to districts for transportation safety programs. [124.225, 7f, 8m / 124D.27, 2, 4]

Property Tax Relief Aids

Property tax aids replace property tax levies with state payments for local taxing jurisdictions. Property tax credits replace property taxes with state payments for individual taxpayers. In both cases, the effect is that the property tax payer pays less than what the taxes would otherwise be on the property, and the state makes up the difference with state payments to the taxing district. The major tax relief programs are the education homestead credit, local government aid, and homestead and agricultural credit aid. Others include disparity reduction aid, attached machinery aid and taconite aids. School districts are one of the taxing districts receiving property tax relief aids.

Education Homestead Credit

For taxes payable in 1998, the 1998-99 school year, a new education homestead credit will be implemented. The Education Homestead Credit is a reduction in the tax on each homestead property and agriculture homestead property equal to32 percent of the general education homestead property tax, with a maximum of $225, (limited to tax on the house, garage and one acre for agriculture homestead properties). For taxes payable in 1999, the education homestead credit increases to 66.2 percent, up to $320, and for taxes payable in 2000, to 67.2 percent, up to $335 [273.1382]

Homestead and Agricultural Credit Aid

The homestead and agricultural credit aid (HACA) replaced the agricultural credit and homestead credit beginning with property taxes paid in 1990 (1990-91 school year revenue). While no longer based on actual property tax levies, HACA continues the goals of the homestead credit and agricultural credit - to provide property tax relief to homestead property and agricultural property. The amount of HACA is based on the amount of the credits for pay 1989 taxes plus adjustments made from time to time in subsequent years. A major adjustment is that HACA for the equalized levies (general education, supplemental, referendum, transportation, and transition) has been transferred directly into those formulas through reduced levies. These equalized levies, in effect, no longer earn any HACA. Beginning with taxes payable in 1996, HACA is being reduced and that state funding is used to eliminate the levy for special education. Each year, a district's HACA will be reduced by the lesser of one fourth of the total or an amount equal to one percent of the district's adjusted net tax capacity (ANTC). The special education levy is phased out over a four-year period. The 1998-99 school year is the third year that HACA funding is reduced and transferred to special education aid.

Because HACA is based on 1989 taxes, and is no longer dependant on the current year's levy, changes in school district levies from year to year no longer directly result in changes in the aid amounts. When property taxes are calculated by the county, the amount of HACA is subtracted from the levy before the property tax bill is sent to the taxpayer. The amount that school property taxes are reduced is paid directly to the school district by the Department of Children, Families and Learning. [273.1398]

Property Tax Calculation - Residential Property

Tax Calculation For Homestead Property In a City
(For Property Taxes Payable in 1998)

(Note: The process illustrated on this page shows the concepts that are used in the determination of levies and tax credits but greatly oversimplifies the actual process used.)

Homestead Market Value	=	$85,000		
Class Rate	=	1% below $75,000, 1.85% above $75,000		
Tax Capacity	=	Market Value x Class Rate		
	=	(75,000 x .01)	+	((85,000-75,000) x .0185)
	=	$750	+	$185
	=	$935		
Gross Tax	=	Tax Rate x Tax Capacity		
	=	Tax Rate x $935		

Calculation of Tax	Tax Rate	x $935
County Rate	38.4%	$359.04
City Rate	39.1%	$365.59
School Rate	45.5%	$425.43
Special Rate	5.0%	$46.75
Gross Levy	128.0%	$1,196.81
Education Homestead Credit *	-	$100.00
Net Levy		$1,096.81

*** Calculation of the Education Homestead Credit**	
Total School Levy	$425.43
General Education Levy **	$312.50
Other School Levies	$112.93
Credit (General Ed. Levy x .32)	$100.00

** The education homestead credit is applied only to the general education levy

Property Tax Calculation - Agricultural Property

Tax Calculation for 320 Acre Agricultural Property and Homestead
(For Property Taxes Payable in 1997)

(Note: The process illustrated on this page shows the concepts that are used in the determination of levies and tax credits but greatly oversimplifies the actual process used.)

Market Value = $310,000
Home, Garage & 1 Acre market value = $100,000
Farm Land (300 acres) market value = $210,000
Class Rate = For Home, Garage and 1 acre: 1% below $75,000, 1.85% above $75,000
For Agriculture land: .4% below $115,000, 0.9% above $115,000 (under 320 acres)

Tax Capacity	=	Market Value x Class Rate				
Tax Capacity, Home	=	(75,000 x .01)	+	((100,000-75,000) x .0185)		
	=	$750	+	$462.50	=	$1,212.50
Tax Capacity, Land	=	(115,000 x .004)	+	((210,000-115,000) x .009)		
	=	$460	+	$855	=	$1,315.00

Tax Capacity, Home and Farmland = $1,212.50 + $1,315 = $2,527.50

Tax = Tax Rate x Tax Capacity = Tax Rate x $2,527.50

Calculation of Tax	Tax Rate	x $2,527.50
County Rate	38.4%	$970.56
Township Rate	6.1%	$154.18
School Rate	45.5%	$1,150.01
Special Rate	5.0%	$126.38
Gross Levy	95.0%	$2,401.13
Education Homestead Credit *	-	$132.00
Net Levy		$2,269.13

* Calculation of the Education Homestead Credit

Total School Levy	$1150.01
Homestead Portion	$551.50
Farmland Portion	$598.51
Homestead General Education Levy **	$412.50
Homestead Other School Levies	$185.97
Credit (Homestead General Ed. Levy x .32)	$132.00

** The education homestead credit is applied only to the general education levy on the homestead portion

Effect of Tax Relief Aids on School District Revenue

Gopherville School District

Total Property Tax Levies Certified by the School Board	=	$1,670,000
Total Direct State Education Aid Payments	=	$2,435,000
Sum of Education Homestead Credit amount, determined for all homesteads in the school district	=	$425,000
Homestead and Agricultural Credit Aid (HACA) applied to reduce property tax levies in the school district	=	$110,000

The school district levy amount is reduced by the amount of the HACA that has been applied to property in the school district.

Levy		HACA		Education Homestead Credit		Net School Property Tax Levy
$1,670,000	-	$110,000	-	$425,000	=	$1,135,000

This is the amount of school property tax to be levied upon property owners after reductions for HACA and the education homestead credit.

The district receives the amount of education homestead credit and HACA as state aid in addition to other state aid paid on education funding formulas.

Direct State Aid Payments		HACA		Education Homestead Credit		Total State Aid Payments
$2,435,000	+	$110,000	+	$425,000	=	$2,970,000

Education Finance Appropriations
Fiscal Years 1997-98 and 1998-99
($ in thousands)

	FY 1998	FY 1999	Biennium
General Education, Transportation and Facilities Aid	$2,690,651	$2,994,775	$5,685,426
Special Education Programs	378,415	464,034	842,449
American Indian Education Programs	5,729	6,564	12,293
Lifework Development Education	20,495	21,107	41,602
Education Organization & Cooperation Aid	15,117	20,380	35,497
School Lunch and Breakfast Aid	9,177	8,140	17,317
Public Libraries	9,164	9,487	18,651
Technology Aid	75,026	17,050	92,076
Department of Children, Families & Learning	27,827	26,501	54,328
Minnesota Center for Arts Education	5,539	6,099	11,638
Faribault Academies	8,943	9,843	18,786
Other Programs	57,590	52,424	110,014
Total	$3,303,673	$3,636,404	$6,940,077

These are appropriation figures rather than entitlement figures. Most figures represent 10% of the prior year's entitlement and 90% of the current year's entitlement. These are state general fund appropriations only, based on the June 1998 end of legislative session appropriations.

The general education appropriation includes $18.7 million in 1997-98 and $90.1 million in 1998-99 for reduction of the property tax revenue recognition shift. Special education aid increases in 1996-97 in part because of school HACA used to reduce the special education levy.

Property Tax Relief Aid Payments to School Districts

	1997-98	1998-99
Homestead and Agriculture Credit Aid (HACA)	$96,706,000	$70,152,000
Disparity Reduction Aid	12,566,000	11,684,000
Border City Disparity Aid	1,859,000	1,587,000
Attached Machinery Aid	836,000	836,000
Education Homestead Credit	0	142,644,000
Others	35,000	0
Total – Tax Relief Aids	$112,002,000	$226,903,000

These are appropriations figures rather than entitlement figures. They represent 10% of the prior year's entitlement and 90% of the current year's entitlement.

School District Property Tax Levies
Fiscal Years 1997-98 and 1998-99
($ in thousands)

	FY 1997-98 Payable 1997	FY 1998-99 Payable 1998
General Fund	1,878,886	1,844,282
Debt Service Fund	339,520	362,156
Community Service Fund	66,348	72,958
Statutory Operating Debt	38	41
Total Operating Levies	2,284,792	2,279,436

These are the levies certified (before applying the tax relief aids) for a specific year. Because of the revenue recognition shift initially implemented in the 1982-83 school year, approximately 7% of the payable 1997 levy will be recognized as revenue in the previous fiscal year and the remaining 93% in the fiscal year for which it is levied. The shift is scheduled to change so that the payable 1998 shift amount is applied only to the general education levy.

Levies providing revenue for 1997-98 were certified in the fall of 1996 and paid in May and October of 1997; levies providing revenue for 1998-99 are certified in the fall of 1997 and paid in May and October of 1998.

Levy figures for 1998-99 are estimates from February 1998.

Education Revenue Sources

This chart shows the revenue available for education from state and local sources. All state education finance appropriations including the Department of Children, Families and Learning, Faribault Academies, the Minnesota Center for Arts Education, tax relief aid payments to districts, various dedicated revenues, and net education property tax levies are included. (Net levies are certified levies minus tax relief aids.) Federal revenues are not included. It is important to note that these are total revenue figures, not revenue per pupil unit.

School District Revenue
Fiscal Years 1997-98 and 1998-99
($ in thousands)

	1997-98	1998-99
State Appropriation (1)	$3,377,460,700	$3,664,933,800
Dedicated Funds (2)	39,782,800	40,429,300
Tax Relief Aid (1)	112,002,000	226,903,000
Net Education Tax Levy(3)	2,173,355,600	2,069,433,900
Tax Shift Adjustments(4)	(35,700,000)	(90,100,000)
Total Revenue	$5,666,901,100	$5,911,600,000
Percent Change in Revenue from Prior Year	3.3%	4.1%
Percent from State Sources	62.3%	66.5%
Percent from Property Taxes	37.7%	33.5%

(1) The state appropriation and tax relief aids are appropriation rather than entitlement, generally 90% of the current year's entitlement plus 10% of the previous year's entitlement. The state appropriation includes K-12 Education Finance Appropriations (p. 44), early childhood and family education appropriations, special TRA contributions for first class cities and maximum effort debt service.

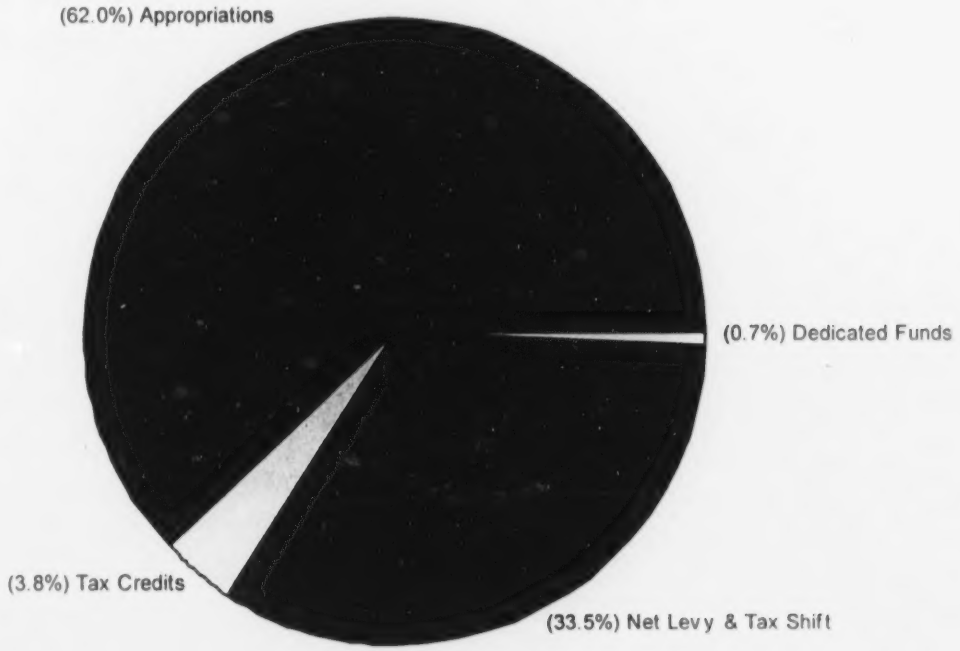
(2) Dedicated funds include permanent school fund, trunk highway fund, alcohol impaired driver account, county apportionment and taconite revenue.

(3) The property tax figure is the amount levied for the school year.

(4) When the amount shifted in one year exceeds the amount shifted in the previous year, an additional aid subtraction is made. However, if the amount shifted in one year is less than the amount shifted in a previous year, additional aid must be paid. The shift is being reduced in both 1997-98 and 1998-99.

Elementary-Secondary Education Revenue Sources

Fiscal Year 1998-99 - Total Revenue = $5,911,600,000



Greg Crowe, House Fiscal Analyst 7/98
Does not include federal funds